Documents published to accompany

IFRIC 20

Stripping Costs in the Production Phase of a Surface Mine

The text of the unaccompanied Interpretation, IFRIC 20, is contained in Part A of this edition. Its effective date when issued was 1 January 2013. The text of the Accompanying Guidance on IFRIC 20 is contained in Part B of this edition. This part presents the following document:

BASIS FOR CONCLUSIONS

Basis for Conclusions on IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*

This Basis for Conclusions accompanies, but is not part of, IFRIC 20.

Introduction

BC1 This Basis for Conclusions summarises the IFRS Interpretations Committee's considerations in reaching its consensus. Individual Committee members gave greater weight to some factors than to others.

Background

BC2 The Committee received a request to issue guidance on the accounting for waste removal ('stripping') costs incurred in the production phase of a surface mine ('production stripping costs'). Accounting for production stripping costs is challenging, because the costs that are incurred may benefit both future and current period production, and there is no specific guidance in IFRSs that addresses this issue.

BC3 Consequently, there is diversity in practice in accounting for production stripping costs—some entities recognise production stripping costs as an expense (a cost of production), some entities capitalise some or all production stripping costs on the basis of a 'life-of-mine ratio' calculation or some similar basis, and some capitalise the costs associated with specific betterments. The Committee decided to develop an Interpretation in response to this diversity in practice.

Scope

BC4 This Interpretation gives guidance on the accounting for stripping costs incurred in the production phase of a surface mine. In developing the Interpretation, the Committee decided to focus only on surface mining activities and not on underground mining activities. This Interpretation applies to the activity of surface mining and therefore to all types of natural resources that are extracted using this process. Where this Interpretation refers to 'extraction of mineral ore', it applies equally to surface mining activities used to extract other natural resources that may not be embedded in an ore deposit but are nevertheless extracted using a surface mining activity, for example coal. However, the Committee decided not to address oil and natural gas extraction, including the question of whether oil sands extraction was a surface mining activity, when it determined the scope of this Interpretation.

BC5 The Committee decided not to include stripping costs incurred during the development phase of a surface mine because there is no significant diversity in practice in accounting for such costs. During the development phase of a surface mine (before production begins), stripping costs are usually capitalised

as part of the depreciable cost of building, developing and constructing the mine if it is probable that these costs will be recovered through future mining activity. These capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.

Consensus

Recognition of production stripping costs as an asset

BC6 The Committee decided that an entity may create two benefits by undertaking stripping activity (and incurring stripping costs). These benefits are the extraction of the ore in the current period and improved access to the ore body for a future period. The result of this is that the activity creates an inventory asset and a non-current asset.

BC7 The asset recognition criteria included in paragraph 9 of this Interpretation are those referred to in paragraph 4.44 of the *Conceptual Framework for Financial Reporting*.[1] An additional criterion is, however, also included in this Interpretation for recognising the stripping activity asset—that the entity can specifically identify the 'component' of the ore body for which access is being improved. All three criteria must be met for the costs to qualify for recognition as an asset. If the criteria are not met, a stripping activity asset will not be recognised.

BC8 'Component' refers to the specific volume of the ore body that is made more accessible by the stripping activity. The identified component of the ore body would typically be a subset of the total ore body of the mine. A mine may have several components, which are identified during the mine planning stage. As well as providing a basis for measuring the costs reliably at recognition stage, identification of components of the ore body is necessary for the subsequent depreciation or amortisation of the stripping activity asset, which will take place as that identified component of the ore body is mined.

BC9 Identifying components of the ore body requires judgement. The Committee understands that an entity's mine plan will provide the information required to allow these judgements to be made with reasonable consistency.

BC10 This Interpretation also states that the stripping cost asset should be recognised as 'part' of an existing asset. 'Part' refers to the addition to, or enhancement of, the existing asset that relates to the stripping activity asset. The Committee took the view that the stripping activity asset was more akin to being a part of an existing asset, rather than being an asset in its own right. The stripping activity asset might add to or improve a variety of existing assets, for example the mine property (land), the mineral deposit itself, an intangible right to extract the ore or an asset that originated in the mine development phase.

1 The reference is to the *Conceptual Framework for Financial Reporting*, issued in 2010 and in effect when the Interpretation was developed.

BC11 The Committee decided that it is not necessary for the Interpretation to define whether the benefit created by the stripping activity is tangible or intangible in nature—this will be determined from the nature of the related underlying existing asset.

Initial measurement of the stripping activity asset

BC12 IAS 16 paragraph 16(b) states that the cost of an item of property, plant and equipment includes 'any costs directly attributable to bringing the asset to the location and condition necessary...'. Examples of the types of costs that the Committee would expect to be included as directly attributable overhead costs (paragraph 12 of the Interpretation) would include an allocation of salary costs of the mine supervisor overseeing that component of the mine, and an allocation of rental costs of any equipment that was hired specifically to perform the stripping activity.

BC13 The Committee thought that it was important to be guided by the principle contained in paragraph 21 of IAS 16 when addressing incidental operations in the Interpretation. The Committee is aware that a number of activities are carried out simultaneously in a mine operation, and it thought that it was important for the entity to be aware of what constitutes production stripping activity, and what does not, when considering the measurement of the stripping activity asset. An example of such an incidental operation would be building an access road in the area in which the stripping campaign is taking place.

BC14 The Committee noted that, when inventory is produced at the same time as the stripping activity asset is created, it may be difficult in practice to measure the separate cost of each benefit directly. The Committee agreed that an allocation basis would be needed in order to differentiate between the cost of the inventory produced and the cost of the stripping activity asset.

BC15 In its discussions of the most appropriate allocation basis, the Committee rejected any basis that was based on sales values. The Committee considered that such a basis in the context of stripping costs would be inappropriate because it was not closely linked to the activity taking place. Furthermore, if the current sales price of the relevant mineral was used in determining the allocation basis, the same current sales price would be applied to the volume of the mineral in both the extracted ore and the identified component. Hence the relevant variable would be the volume of mineral in both the extracted ore and the identified component, ie the current sales price would not change the allocation basis. The Committee understood that applying a future sales price basis would involve practical difficulties and that it would be costly in comparison to the benefit that it would provide. From the outreach performed by the staff, the Committee understood that identifying a future sales price for ore that will be mined in the future can be difficult, given the volatility of market prices for many minerals. Further complexities may arise when more than one mineral is present (whether by-products or joint products) when the ore is extracted.

BC16 The Committee decided to require an allocation approach that was based on a relevant production measure, because a production measure was considered to be a good indicator of the nature of the benefits that are generated for the activity taking place in the mine. The production measure basis requires an entity to identify when a level of activity has taken place beyond what would otherwise be expected for the inventory production in the period, and that may have given rise to a future access benefit.

Subsequent measurement of the stripping activity asset

BC17 The Committee decided that the cost of the stripping activity asset should be depreciated or amortised over the expected useful life of the identified component of the ore body that is made more accessible by the activity, on a basis that best reflects the consumption of economic benefits. The units of production method is commonly used, and would be focused only on the identified component of the ore body, the access to which has been improved by the stripping activity. Because the life of the identified component is expected to be only a part of the entire life of the mine, the stripping activity asset will be depreciated or amortised over a shorter period than the life of the mine, unless the stripping activity provides improved access to the whole of the remaining ore body, for example, towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

BC18 The Committee decided that the principles of this Interpretation would also be applicable to an entity that subsequently accounts for its mine assets at revaluation, although the Committee noted that this method was seldom used. The Committee decided that the subsequent measurement basis of the stripping activity asset should follow that of the existing asset of which it is a part, that is, if the existing asset is measured using a cost basis, then the stripping activity asset would also be measured using a cost basis. The Committee also decided that there was no need for specific impairment guidance to be given and expects that the principles in IAS 36 *Impairment of Assets* would be applied to the existing asset of which the stripping activity asset is a part, and not at the level of the stripping activity asset itself.

Transition

BC19 Because of the complex and lengthy nature of many mining operations, and the past diversity of practice in respect of this issue, the Committee concluded that the cost of applying the change in accounting policy retrospectively would exceed the benefit that would be gained from doing so. The Committee therefore decided that this Interpretation shall require prospective application to production stripping costs incurred on or after the beginning of the earliest period presented.

BC20 The Committee decided to follow the principles in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on transition. It decided to require recognition of any predecessor stripping asset balances (see paragraph A3) as at the beginning of the earliest period presented, in opening retained earnings at that date, if such balances could not be identified with a remaining

component of the ore body that was made more accessible by the stripping activity.

BC21 The Committee noted that any liability balances resulting from prior production stripping activity that existed at the transition date would not be recognised under the principles described in the Interpretation. The Committee understood from the comments received on the draft Interpretation that such balances were uncommon, and therefore did not think that it needed to provide any guidance on recognition of liability balances, because constituents may find it confusing.

